

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-317-WS
FEBRUARY 6, 2012

IN RE:)
Application of Kiawah Island Utility,)
Incorporated for Adjustment of Rates and)
Charges)

**KIU STATEMENT OF
COMPLIANCE WITH PSC INTERIM
ORDER ADOPTED FEBRUARY 1,
2012, WITH REVISED FINANCIAL
SCHEDULE AND REVISED RATES**

I. INTRODUCTION

Kiawah Island Utility, Inc. ("KIU") provides that this Statement of Compliance in response to the Commission's Interim Order dated February 1, 2012. In the Interim Order the Commission instructed KIU to file a revised financial schedule for the test year adjusting the federal tax rate to 34% and eliminating expenses associated with the Cougar Island ARS site that KIU purchased in 2010. The Commission also instructed KIU to file the revised rates, after these adjustments, based on a 13.75% operating margin. Filed with this Statement of Compliance are the financial schedule and the schedule of revised rates.

II. EXPLANATION

As instructed by the Commission in its Interim Order dated February 1, 2012, KIU is submitting the following information on the revised rates as adjusted to remove the expenses associated with the ASR site on Cougar Island for the test year as well as to switch the federal income tax rate from 35% to 34% for the test year. As the Commission recognized in its order, all expenses associated with the Cougar Island property could not be easily ascertained from the

financial information in the record. The staff of KIU reviewed in detail the test year ledgers to make certain that all appropriate adjustments were made.

In addition, based on the tight time frame, due to the statutory deadlines in the case, KIU solicited help from, and worked with, the ORS up-front to ensure the accuracy and completeness of the adjustments and revised rate schedules. These adjustments include full compliance with the ORS's interest synchronization methods and procedures.

The required adjustments resulted in a reduction in the annual revenue requirement of approximately \$103,000 based on a 13.75% operating margin. The components of this reduction are as follows:

Federal Income Tax:	\$30,000
Interest Expense:	\$58,000
Other:	\$ 3,000
<u>13.75% Margin Gross up:</u>	<u>\$12,000</u>
Total Reduction in Expenses:	\$103,000

As indicated above, a complete review of the test year ledger was performed and confirmed the following:


- No legal or engineering fees associated with the Cougar Island property were incurred in the test year.
- No property taxes associated with the Cougar Island property were incurred in the test year.
- Miscellaneous expenses of \$61 were incurred and were removed in the adjustments.
- The management fees' justification was reviewed. \$6,067 of allocated services was associated with the Cougar Island land purchase. However, after removing this from the justification, the result still supported a charge greater than the \$100,000 contract amount.

As a result, the management fee was not adjusted.

A revised financial schedule adjusted by all ORS and PSC adjustments (including the removal of expenses associated with the Cougar Island ASR site and reduction in tax rate), demonstrating the revised revenue requirement based on a 13.75% operating margin is attached as Appendix B (Appendix B.xls). The resulting revised rates are attached as Appendix A.- Schedule of Rates and Charges (Appendix A 2-3-2012 (v.1).xls),

Respectfully submitted,

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ATTORNEYS FOR KIAWAH ISLAND UTILITY, INC.

February 6, 2012
Charleston, South Carolina